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RUSSIA'S ECONOMIC LOSSES

The Soviet Government has from time to time made statements about Russian losses in men and arms of all descriptions. They are grievous and, as the second war winter approaches, Russia must strain every nerve to replace wastage in men and weapons. Taking into consideration the scale of military operations which have already lasted more than a year, that would not have been easy even on the pre-war territory and with the full pre-war equipment of Soviet industry. But as a result of the deep penetration of Axis armies into Western and Southern Russia the task of maintaining huge armies and also civilian life above starvation level has become extremely arduous and demands sacrifices from the population and a resourcefulness of the Government which are greater than those required of any other of the United Nations, and which probably constitute an even heavier burden than that which lies upon the peoples of occupied Western Europe. The parts of Soviet territory at present occupied by the Germans belong to the most densely populated, most fertile and highly industrialised parts of the country, which contain in addition the major part of the developed resources of raw materials for war. More than a third of the total population of the U.S.S.R. lives in the regions already occupied or forming part of the present battle zones, and in addition there is the threat of a possible separation of the Caucasian area from the main body. Part of the man power has been evacuated to other parts of Russia, but even if events had been foreseen the bulk of the population must have been left behind.

The economic importance of the lost area is, however, far greater than the population figures indicate. It includes about two fifths of the total acreage normally sown in Russia and rather more of the wheat production.

About 40% of the cattle, slightly more of the horses and almost two-thirds of the pig population were found in the occupied zones. In butter and vegetable oils these regions supplied about 60% of the total pre-war production; of tinned food (Army supplies !) and sugar more than 80%. The losses in food resources exceed by far the losses in population, including estimated actual war losses. Great efforts have been made to extend food production in Eastern and Asiatic regions, but a substantial extension of food production in these regions is possible only either after large-scale ameliorative preparation or by transfer of production from essential technical plants (cotton) to food production. In spite of an all-out effort the net loss in food producing capacity remains considerable and for products such as sugar, meat and fat, irreparable. The feeding of the people East of the front-line and particularly in the towns will present a formidable problem to the Soviet Government and to the Allied nations.

Graver than the agricultural problems are the losses in some basic industries. Three fifths or more of the pre-war productive capacity of coal, iron ore, pig iron, iron, steel, aluminium, cement and railway rolling stock have been cut out by the German advance and also about 50% of the capacity of their tractor industry, with corresponding repercussions both on agriculture and on the armament production programme. The loss of coal mines which produced some 60% of the total Russian coal output and the increased threat to the Caucasian oilfields, refineries and transport facilities have repercussions on transport, industry, agriculture and military operations which can hardly be overestimated. With great ingenuity the Russians have transferred a considerable part of industrial equipment away from the danger zones; but even after allowing for transfers of manufacturing plant, the losses in vital raw materials where large-scale transfer is either impossible (e.g. iron and manganese ore, coal) or impracticable (e.g. blast furnaces, cement plants) must, in the not distant future, curtail the Russian war potential in many respects. And the development of new areas takes time and requires equipment and skilled labour which after a year of fierce war are in extremely short supply. Again, the stocks of materials may act as buffers for some time as they did in the past 12 months, but they will be gradually exhausted and cannot be replenished from inside or outside. In order to maintain the offensive and defensive strength of the Russian Army at the present level, part of the reduction in Russian productive capacity will have to be filled up by large supplies of finished war goods from the Allies who will also have to ship additional (concentrated) food.

East of the Don the meshes of the transport network are more loosely spread, and although there may be roads whose existence has been kept secret, it is plain that transport may become a serious bottleneck. Development of food and raw material resources in the Eastern regions must be integrated with the great consuming and manufacturing centres many hundred miles to the west, despite air attacks, and very soon severe winter conditions. It will not produce full results if the transport system cannot cope with its task.

It is difficult to focus the magnitude of disruption, caused by the German penetration, but it may give some idea of what the Russians are asked to perform in the economic field if we imagine that, say, Germany was faced with an Allied force which had occupied the Ruhr and the Rhine—Main area, and that fighting was going on in the direction of Hanover and Hamburg.[1] Although the odds are heavily against them, the Russians will continue the struggle, but their offensive and defensive strength is a function of supplies of equipment and food to the Army ; and that is both a Russian job and an Allied job of far reaching consequence.

ALEXANDER BAYKOV.

THE FINANCIAL SITUATION IN THE FIRST HALF OF 1942.

The White Paper[2] has given ample material for the analysis of the financial situation in 1941. We shall attempt here to estimate the changes in the most important elements of war finance between 1941 and the first half of 1942 and then proceed to the analysis of the financial position in the latter period. We shall start with the continuation of our series of employment and the wage-bill given in the BULLETIN, Vol. 3, No. 13, and Vol. 4, No. 3. We shall then try to estimate the changes in the national income (on the basis of those in the wage-bill) and in personal consumption (on the basis of the retail trade statistics of the Bank of England). These data will finally enable us to discuss the recent trend in war finance and draw certain conclusions with regard to the general economic situation.

EMPLOYMENT AND THE WAGE-BILL.

In the Table the estimates of employment and the wage-bill which have been given in the articles quoted above are continued. The index of the number of persons in insured employment (after elimination of changes in the scope of insurance) is calculated from the unemployment insurance contributions.[3]

The " earning strength " means average earnings per person divided by the index of wage rates (it depends on the length of working day, on overtime, night shift, and production bonuses, and on the structure of employment according to occupation, age and sex). The earning strength in the middle of 1941 was estimated in BULLETIN Vol. 4, No. 3, at 114 (1938=100) and this figure was assumed provisionally for the second half of 1941. According to the Ministry of Labour inquiry average earnings in manufacturing, building, and public utilities were, in January 1942, 2.5 % higher than in July 1941. But after elimination of the seasonal influence of the reduced earnings in building and other outdoor industries it appears that average earnings in January 1942 were higher than those in July 1942 by 6 or 7 per cent.[4] The corresponding rise in wage rates was about 3.5 per cent., and thus the increase in " earning strength " in the industries concerned was about 3 per cent. Assuming that the rise in all industries was of a similar order we can estimate the index of "earning strength" at the beginning of 1942 at 117.5. Accordingly we correct this index in the second half of 1941 from 114 to 116 and assume provisionally 118 for the first half of 1942.

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[1] An appropriate comparision for Britain might be that the enemy, coming from the East Coast, had occupied the area enclosed by a line stretching from Newcastle to Southampton, and was attacking Birmingham.

[2] Cmd. 6347.

[1] The method is described in detail in BULLETIN Vol. 3, No. 13.

[4] See a note by Professor Bowley, BULLETIN Vol. 4, No. 10.

Index of Wage-Bill.
1938=100

	Half year	Persons Employed	'Earning strength' per person	Wage rates	Wage-Bill
1940	I	102.5	109	109.5	122.5
	II	98.5	112	115	127
1941	I	104.5	113	120.5	142
	II	105	116	124	151
1942	I	106.5	118	129	162

The wage-bill is now obtained as the product of the index of persons employed, the " earning strength," and Professor Bowley's index of wage-rates. The wage-bill computed in this way does not cover strictly the aggregate earnings of manual workers because insured employment excludes certain types of manual labour and includes lower grades of salary earners. For 1940 and 1941 our index is 125 and 146.5 respectively (1938=100). The corresponding figures obtained from the White Paper by deducting from the wage-bill, as given there, a rough estimate of the soldier's pay are 125 and 141. The agreement in 1940 is perfect ; in 1941 the discrepancy is about 4 per cent.

As follows from the Table the number of persons in employment continued to increase. The rise in "earning strength" points—although not quite conclusively—to the same with regard to the average working day. This may have been caused by the increase of the weight of war industties, where longer hours are worked, in the total employment and also by a lengthening of the working day in the non-war sector. The present level of employment in man-hours may be estimated at about 120 (1938=100).

NATIONAL INCOME AND CONSUMPTION.

As may be seen from the Table our figure for the wage-bill in 1942 is 10.5 per cent. above the average of 1941. What is the plausible corresponding increase in the national income ? It follows from the White Paper that the national income in 1940, after deduction of soldiers' pay, was about 20 per cent. higher than in 1938 ;[1] the corresponding rise in our figure of wage bill was 25 per cent.; thus the percentage rise in the national income was 80 per cent. of that in wage-bill. The increase from 1940 to 1941 was 9.5 per cent. in the national income[1] and 17 per cent. in our figure of wage-bill, the former being thus 56 per cent. of the latter. We shall therefore assume that the rise of national income corresponding to 10.5 per cent. increase in the wage-bill from 1941 to the first half of 1942 was 6 to 8 per cent.

The national income in 1941, exclusive of soldiers' pay, was about £5,850 million,[1] of which 6 to 8 per cent makes £350 to £470 million. Thus if we estimate the rise in the national income from 1941 to the first half of 1942 to be about £400 millions a year, the error is of the order of £50 million. This increase is exclusive of that of soldiers' pay, and therefore still requires some correction. We shall, however, take account only of the change in soldiers' pay in cash, because our figure for the increase in the national income will later be compared with the change in consumption, estimated on the basis of retail trade and consequently excluding soldiers' allowances in kind. The increase in cash payment to soldiers will raise our figure of the increase in the national income to something like £450 million per annum.

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[1] See " War Finance in 1940 and 1941." BULLETIN Vol. 4, No. 8.

We shall now estimate roughly the rise in the rate of civilian consumption (money value) in the first half of 1942 as compared with 1941. The retail trade figures as given in the Bank of England Statistical Summary show, after the elimination of seasonal variation, a rise of 6 per cent. Since the retail sales in 1940 were at a level of about £3,000 million this amounts to an increase of £180 million per annum. As the change in the expenditure on services was probably not important, we may estimate the change in total civilian consumption between the periods in question as being of the order of £200 million.

It follows that the increase in the excess of national income over personal consumption may be estimated at £450—£200 = £250 million. It need hardly be emphasised that because of the large possible errors in both items their difference should be considered only a rough guess.

WAR FINANCE.

As has been shown in this BULLETIN[1] the sources of financing the expenditure of the Central Government may be presented as follows:

1. Excess of personal incomes[2] over personal consumption,
2. Business income[3] undistributed to persons,
3. Surplus of public funds[4],
4. Compensation for war damage,
5. Indirect taxes and miscellaneous Government income,
6. Private and Government disinvestment abroad,
7. Disinvestment at home except war damage.

We shall now try to estimate roughly the changes in some of these items from 1941 to the first half of 1942. Since personal incomes include also "transfer incomes" (interest on the National Debt, pensions etc.), which one does not include in the national income, the sum of items (1) and (2) is the excess of national income + "transfer incomes" over personal consumption. We shall, however, consider the financing of supply expenditure only, and thus the interest on National Debt must be deducted from the sources of finance. Other transfer incomes are rather stable and therefore we can identify the joint change in items (1) and (2) with the change in the excess of national income over personal consumption, which we have estimated in the preceding section at +£250 million. (This amount covers thus the increase in personal savings, undistributed profits and direct taxation).

Item (3) covers the surpluses of social insurance funds, war risk insurance funds and Local Authorities. The surpluses of social insurance and Local Authorities could not have changed significantly and thus the change which must be taken into consideration is that of war risk insurance schemes. Now item (4) covers the compensation paid by these schemes and that paid under the War Damage Act. If we therefore consider the *joint* change in items (3) and (4) we see that this may be identified with the change in *contributions* to war risk schemes + the change in *compensation* paid under War Damage Act. There is not sufficient information about the change in the first of these items, but it is not likely to have been very important. From the Budget Accounts it may be concluded that the same is true with regard to the second item.[1] We shall therefore neglect in our calculation the changes in items (3) + (4) ; this makes, of course, its result even more uncertain.

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[1] Vol. 4, No. 8.

[2] After deduction of employees' contribution to social insurance but before payment of direct taxes (in which are included contributions under the War Damage Act).

[3] After payment of contributions to social insurance and war risk schemes (except those under War Damage Act) but before payment of direct taxes.

[4] Inclusive of the surplus of Local Authorities but exclusive of the surplus arising out of contributions and payments under War Damage Act.

The change in indirect taxation etc. (item 5) may be calculated from Budget Accounts to be, in round figures, £100 million (after a rough elimination of the seasonal factor).

Private and Government disinvestment abroad (inclusive of the Canadian contribution but exclusive of Lend and Lease Aid) was estimated in the White Paper at £798 million in 1941 and at £775 million for the financial year 1942/43. We therefore assume no change in this item from 1941 to the first half of 1942.

We shall now calculate as a residual the disinvestment at home except war damage (item 7). The rise in the annual rate of supply expenditure from 1941 to the first half of 1942 was about £500 million. According to the above it was covered to the extent of £250 million by the rise in the excess of national income over personal consumption, and to the extent of £100 million by the increase in indirect taxation. Thus the residual to be covered by home disinvestment is £150 million.

In other words our calculation shows an increase in the rate of home disinvestment from 1941 to the first half of 1942 of £150 million. Owing to the precarious character of our estimate this figure is, however, very uncertain and, therefore, the only thing we can say is that the rate of disinvestment has probably not been reduced in the first half of 1942 as compared with 1941. But home disinvestment in 1941 was according to the White Paper about £500 million, and thus in the first half of 1942 it was at least at this high level, a substantial part of which must have been due to the depletion of stocks of consumption goods in private hands.

This is one aspect of the divergency between supply and demand or of an " inflationary " situation. We shall discuss it in more detail in the last section. For the moment we shall deal shortly with other elements which determine whether the situation is inflationary or not.

If by price inflation we mean a rise in prices out of proportion with costs, there are certainly many consumption goods in which such a development took place in the course of the three war years. If we compare the first half of 1942 with 1941 such an " inflationary " rise in prices only occurred in a limited sector (for instance household goods), and the resulting increase in the aggregate extra profits was probably not a very large amount. (If our estimate of the increase in the national income is correct the role of these extra profits in war finance is accounted for in the excess of national income over personal consumption).

In 1941 the discrepancy between demand for and supply of consumption goods appeared still in the form of shortages and queues. In this respect a definite improvement can be noted in the first half of 1942. The extension of rationing coupled with a certain increase in the supply of food[1] relegated the shortages to less important sectors of consumption.

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[1] The difference in the annual rate of Miscellaneous Receipts in the first half of 1942 and 1941 is about £30 million. This difference is chiefly due to changes in sums credited to Miscellaneous Receipts corresponding to amounts paid out of Votes of Credit to meet the expenditure under the War Damage Act.

GENERAL REMARKS.

The above survey raises certain interesting problems. The first relates to the depletion of privately owned stocks of consumption goods. This has continued at a considerable rate since the beginning of the war right up to the present. On the other hand in the first half of 1942 no acute shortage of goods, which should result from a low level of stocks, was felt. How can these two facts be reconciled ? The answer is that since a strong reduction has taken place in the output of consumption goods, the working capital tied up in their manufacture and distribution was being released and such a depletion of stocks does not make itself felt to the consumer. At the point, however, when output is stabilised a further depletion of stocks must create shortages. From that moment onwards, if consumption is not reduced by rationing to the level of current supplies either prices increase or, with controlled prices, shortages and queues make their appearance. It follows that the gap between production and consumption which does not make itself felt in the period of declining output will have to be closed up when this decline comes to an end.

The other problem arises in connection with the recent trend in consumption. Retail sales increased—after the elimination of seasonal variations—by 6 per cent. in the first half of 1942 as compared with 1941. The rise in food was 5 per cent., that in non-food commodities 7 per cent. (all after the elimination of the seasonal factor). The Ministry of Labour Index of retail food prices showed for the same period —after the adjustment for seasonal variations—a fall of 2 per cent. Since, however, the prices of certain goods not included in the index of the Ministry of Labour have increased, it is safer to assume that food prices were approximately unaltered. The " real " food consumption has thus risen by 5 per cent.

The prices of non-food goods included in the cost of living index increased by about 8 per cent. If we used this index for deflation of the non-food retail sales their " real " value would appear nearly unchanged. But in fact prices of goods other than food not included in the Ministry of Labour cost of living index have increased more in price and therefore the " real " value of non-food sales has probably fallen by a few per cent. From this and the rise of " real " food sales, estimated above at 5 per cent., we can conclude that total retail sales remained more or less unaltered in their " real " value.

How was it possible to maintain the volume of civilian consumption from 1941 to the first half of 1942, although it is known that in the meantime transfers of labour from the " unessential " industries to war production have been effected, and thus the output of many consumption goods was smaller in the first half of 1942 than in 1941 ? The answer is: (1) that the output of home food was not reduced but on the contrary perhaps increased ; (2) that there was probably an appreciable increase in the supplies of food from overseas. (This is not incompatible with foreign disinvestment being probably at more or less the same rate in the periods considered and commercial exports from this country having fallen ; for the rate of Lend and Lease supplies was higher in the first half of 1942 than in 1941.)

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[1] See the next section.

These two factors explain the increase in the volume of retail sales of food. The fall in the volume of non-food sales from 1941 to the first half of 1942 reflects the reduction of output in consumption goods mentioned above. This reduction might have been greater than that in retail sales because shrinking of stocks of the commodities in question might well have been at a higher rate in the first half of 1942 than in 1941.

M. Kalecki.

ALLIED CONTROL FOR ALLIED SUPPLIES. THE CASE OF SHIPPING.

'The Allied Maritime Transport Council, which was established by the Allied Conference . . . and is now working through a permanent organisation . . . and a series of Committees in which Allied representatives of all the main Supply Departments in each country are co-operating, stands for the application of the principle of Allied control to Allied supplies.

'The strength of the forces the Allies can command . . . depends upon the amount of supplies which can be transported to maintain them, and any failure to organise the transport and supply system to its maximum efficiency might easily mean postponing victory by a year.

'It is essential, therefore, that the resources of the Allies shall be used to their utmost ; and for this that they shall be used under a central plan and under unified control.

'The Allies have agreed that the allocation of ships, upon which depend all their imported supplies both for Military and Civilian purposes, shall be arranged upon the simple and equitable principle of securing that they help most effectively in the prosecution of the war and distribute as evenly as possible among the associated countries the strain and sacrifice which the war entails.

'The available supplies of food for the Allies are limited, the output of munitions is limited, the manufacture of every form of supplies and provisions required for both combatants on land or at sea is limited. If any service has more than it can fairly demand as its share of the common resources, if any country has more than it can fairly demand, there is a net reduction in the forces directed against the enemy and an unfair distribution of the sacrifices entailed by the war. This is a problem which no single country can solve by itself . . .

'The essential basis of any such organisation must be the control of shipping, for shipping is the limiting factor in all allied supplies. *Throughout the last two years of the war more supplies have been produced than ships could transport. The amount of supplies therefore depends upon the ships to carry them, and the amount which each ally can obtain depends upon the allocation of tonnage to that ally.*[1] It has become neccessary therefore that the authorities who control the different mercantile marines which serve the Allies should be so associated as to direct their vessels under a common plan, and should have at hand an Allied organisation competent to advise them as to the relative importance of all Allied requirements.'

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[1] My italics.

The statement is timely and to the point. It might have been issued by the recent London meeting of the Combined Shipping Adjustment Board,[1] but was actually drafted in the autumn of 1918. It is taken from a book entitled 'Allied Shipping Control'[2] written by Sir Arthur Salter, the then Secretary of the Allied Maritime Transport Council and Chairman of its Executive, and now British Representative on the Combined Shipping Adjustment Board in Washington. The similarity of problems then and now and the potential lessons which may be drawn from past experience will be apparent to any reader of the book. Two examples (they may not be the best ones) suffice to show this. The first one refers to organisation, the second to shipping policy.

ALLIED SHIPPING CONTROL IN 1918 AND 1942

1. The Allied Maritime Transport Council was formally established in March 1918. It consisted of two Ministers each of Britain, France, and Italy, and two American Delegates, and met in formal session four times before the Armistice. Each member was, however, represented for current work by a staff of officials resident in London and together forming the permanent staff of the Council. This organisation worked in four National Divisions, the head of each (with his staff) being primarily responsible for considering the requirements of his own country. The whole organisation was, however, welded into one and the current adjustment of policy effected by the formation of the Allied Maritime Transport Executive composed of the heads of the Divisions. The Executive met frequently, formally and informally, and was the instrument through which liaison between the governments was secured on all shipping questions. To the National Departments the member of the Executive always represented the Allied point of view, but to his Allied colleagues he always represented his own country's point of view.[3] The linking together of the national divisions into an Allied instrument under the Executive was extended by the formation of subordinate committees, responsible to the Executive, for Tonnage, for Imports and for Statistics, and also by a non-national Secretariat organised on ordinary administrative principles with a Shipping Intelligence Sub-Section.

2. This inter-allied shipping authority[4] was, however, neither in a position nor willing to take the responsibility for selecting between the competing demands of the supply departments, and was anxious to transfer this responsibility to an authority representing those departments themselves. In the several countries this transfer was gradually effected by the establishment of such bodies as Tonnage

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[1] *The Times*, 1/8/1942.

[2] 'Allied Shipping Control. An Experiment in International Administration, by J. A. Salter. Quite apart from the present position of its author, the book is the main source of information on inter-allied shipping organisation and policy in the critical year 1918.

[3] 'America's association with the organisation was always somewhat tentative and provisional. For many obvious reasons they had a less direct and decisive influence in their National Administration than their colleagues', ibid. p. 176.

[4] As to the advisory nature of the authority, and its dependence on the consent of the national governments, see *inter alia* p. 187 f.

Priority Committees, Cabinet Committees or Standing Committees on Imports. In the Spring of 1918 it was decided to 'internationalise' the system by the extension of Programme Committees. The members of these Committees were chosen on the same principle as those of the Transport Council, that is, they were actual officials who exercised and continued to exercise direct executive authority in their own national departments. These Committees varied greatly in organisation, constitution and power. Many of them had other duties than that of preparing and revising programmes in relation to shipping. Gradually the Committees were grouped under an Inter-allied Munition Council, a Food Council and a Raw Material Council,[1] the last only projected. These Supply Councils were ministerial bodies of an equal status with the Transport Council itself, the latter Council gradually acquiring a leading position, not through any difference in rank or status, but through its control of shipping. When the system was in complete operation there was one further development. Members of a particular Programme Committee were associated with shipping representatives in a Freight Committee which arranged the detailed allocation of ships and the instructions as to where to load and discharge them, giving practical effect in daily business to the general arrangements made by the Allied Supply authorities and the general policy approved by the Allied Shipping Authorities.[2]

3. Machinery set up since America's entry[3] into this war in December 1941 shows some resemblance, but also significant differences and on the whole a less advanced stage than in the late summer of 1918. For obvious reasons we know less about the present organisation than—ex post—of that of the last war. Broad outlines can, however, be traced.

On the supply side we have the Combined Resources and Production Board and related to it the Combined Munitions Assignment Board and the Combined Raw Materials Board. Each Board has four representatives, two (one British, one American) on each side of the Atlantic. The Combined Food Board seems to be represented in Washington only, the head of the British Food Mission acting under the instructions of the Minister of Food and the Under Secretary of the Department of Agriculture. There were some hints that Canada would be represented on some of these Boards, but apparently competitive claims of Dominions are to be settled primarily within the British Empire and through the British representative. Whether Dominion (particularly Canadian and Australian) influence, using at present both British and American channels for their claims, will be formally represented remains to be seen. The precedent of non-representation in 1918 need not be followed under the different conditions of 1942 or 1943. The visits which various Dominion Ministers have recently paid to the President of the United States may open up other forms of co-ordination than formal representation on the Combined Boards.

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[1] For a graphic representation of the 1918 organisation, see Salter loc. cit. p. 242.

[2] The whole description of Allied Shipping is taken almost verbally from various parts of Salter's book.

[3] The question of shipping co-ordination did not arise acutely before. From 1939 till the defeat of France arms and not shipping were the limiting factor; from July 1940 to December 1941 shipping was mainly under British control. The question of inter-allied co-operation arose when co-ordination with the U.S.A. became imperative and also possible.

4. Occasional visits of the leading statesmen and intermittent meetings of high officials are of great importance in framing broad outlines of policy, but the day to day business which must be transacted to put policy into effect and make adjustments to changing needs and situations require a permanent inter-allied executive organisation. The establishment of such an Allied Maritime Transport Executive and a Secretariat—Salter leaves no doubt about it—welded the loose organisation of the Council into one and effected the current adjustments of policy and action. It is not clear whether, during this war, organisation of the various Combined Boards,—in particular that of Shipping, has been fortified by such a permanent executive.[1] Nor is it clear that machinery for the co-operative play between a Shipping Executive and the Supply and Service Departments on the lines of the 1918 Programme and Freight Committees, has been set up.[2] Without such machinery on the part of the Supply Departments, the Shipping authorities are groping in the dark and can neither plan the optimum use of available tonnage nor adjust demand and supply. A writer in *Fortune* (June 1942) reports that when the (U.S.A.) Deputy Shipping Administrator, Mr. Lewis Douglas, tried to ascertain in March 1942 the 12 months' shipping requirements of Army, Navy, Lend-Lease organisation and the War Production Board, demands surpassed capacity by almost 100%, and even if they were cut down to an irreducible minimum there remained a deficit of 15-20%, assuming normal losses over the period. However that may be (and similar 'irreducible' deficits seem to have existed on paper in 1918) it is evident that constant and close co-operation of the various Supply Departments in the two countries by means of Programme Committees etc., with a permanent Executive of the Shipping Board is essential, to ensure the optimum distribution in the use of shipping. The 'two-pair' organisation of the Boards appears sensible[3] and should be continued, but until a joint and undivided executive is established the Boards are hardly effective organs. One could go further and argue that the shipping organisation needs not only an executive arm to control ships and shipments, but also an extension at the planning end. As long as shipping is the paramount bottleneck the ministerial heads of the Shipping Administration might be given Cabinet rank, for practically all major decisions on military and economic strategy will depend on shipping.

5. "In principle," states the U.S.A. Executive Order establishing the Shipping Board, "the shipping resources of the two countries will be

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[1] Such an executive would have to work in one place, i.e. either in London or in Washington. The Executive organisation of the Shipping and Food Boards might tend to Washington; those of the Munitions Assignment and Raw Material Boards to London.

[2] After this article had gone to press *The Times* (September 16) published an instructive article on the working of the British Ships Distribution (Diversion) Section, under the title 'The Control of Cargoes.' The article does not mention whether a similar inter-allied organisation exists.

[3] In contrast to the last war when Britain, France and Italy formed the main block of the Allied Shipping Organisation and their executive heads could easily confer, the 3,000 miles distance between the two western Allies makes such a procedure more difficult. Moreover, Britain as the dominant partner in the European trio incurred the initial sacrifices while the more equal status of the two shipping partners in this war provides a new and delicate element in the situation.

deemed to be pooled." In fact there are two big pools and some minor pools. The biggest of them is (at present) the British pool, including ships, chartered and seized, sailing under the direction of British shipping authorities. The smaller but growing American pool comprises (after gradual extension of requisitioning of U.S.A. ships) those of U.S.A., Panama, Honduras, and Norwegian and Dutch ships.[1] To these ships sailing under civilian direction[2] must be added the important merchant fleets requisitioned by the army and navy of both countries. It is said that by March 1942 the American Army had requisitioned 150 and the Navy 75 out of a total of 500 to 600 ocean-going U.S.A. merchant ships. The two services claim also their share of new ships. No up-to-date figures are available of British ships under Army and Navy control, but if data of the first world war are taken as a guide their share would be considerable too. The Service Departments are independent carriers working on different principles and have apparently little co-ordination with the civilian shipping authorities. The Admiralty in this country and the Army in the U.S.A. have come up occasionally for public criticism on alleged waste of shipping resources.[3] If maximum use is to be made of available shipping, at least exchange of information, temporary transfers, avoidance of duplicate services, and some common principles of policy should obtain between the civilian and Service pools, as effective pooling in these two spheres seems to be out of the question.

On paper a complete merger of the British and American pools under the direction of an Allied shipping authority would seem to be the most rational solution. A proposal to this effect was made in the last war (Paris Conference 1917) and rejected—in Salter's opinion rightly rejected. His arguments (e.g. p. 187) carry considerable weight and deserve the attention of the outright ' poolers ' even under the different conditions of to-day. Yet some steps may be taken in this direction. There existed in the last war a pool of some 500,000 tons under complete Allied control and under the direct order of the Transport Council and its Executive.[4] Such a pool, even if small in relation to that tonnage which is working under the general plan executed by the different governments controlling the national mercantile marines, would give the executive of the Combined Shipping Adjustment Board important marginal power without leading to the difficulties of all-out pooling.[5]

ALLIED TONNAGE ALLOCATION, 1918 AND 1942

Proper administrative machinery and inter-allied and inter-departmental dovetailing are essential tools for breaking the shipping bottleneck. Even more vital than the tools, however, is the use to which they are put. There again the proposals of the Allied Shipping Executive for 1918/19 (Sept. 1918) may serve as an illustration. Some recommendations of the Executive, which in many respects seem to be suggestive for 1942/43, may be summarised as follows.[1]

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[1] The Dutch Government enacted requisitioning of ships in June 1942. These ships were transferred to the American pool.

[2] Including the tanker pool with its geographical divisions. Little is known about the ' liner ' pool.

[3] e.g. in U.S.A. for shipping assembled, and hence bulky weapons, instead of unassembled ones where adequate workshops and skill were available in ports of destination; in Britain see, for complaints of shipowners, *Financial News*, July 30th and August 10th, 1942.

[4] Ibid. p. 170. For restrictions (which should not be repeated to-day) in the use of this tonnage, see p. 296.

[5] It might be feasible to divert all or part of new building into the common pool.

1. *Munitions in winter—Food afterwards.* That during the later autumn and winter a general preference shall be given to the transport of munitions and Army supplies as compared with food ; that when necessary but as late as possible, without running undue risk of actual shortage of food, a similar preference shall be given to the transport of food in the spring or early summer.
2. *Reduction of Stocks.* That in view of the prospect of substantial improvements in the whole Allied tonnage position by next summer, and in order to avoid reducing shipment of essential commodities required for actual consumption during the year up to August (particularly munitions) all supply departments should be asked to effect a reduction of stocks until they approximate, towards the end of August, to the quantities required for (the smooth working of) actual distribution.
3. *Raw Materials.* That actual recorded consumption (tonnage) of last year should be taken as setting the maximum limit for programmes for the ensuing year.
4. *Food.* That 18.5 million tons (as against 23½ million tons demanded by the Food Council and 20½ million tons actual imports in the previous year) of importations of all articles included in the food programme should be confirmed as the figure for the year.
5. *Munitions.* That in estimating what is available for munition imports it should be provisionally assumed that any tonnage assistance rendered to America will be returned within the cereal year.
6. *American Trooping Programme.* That the Council should not recommend at this moment any reduction in the embarkation of American soldiers in spite of the grave conditions of the import programmes as indicated above, but should be prepared to recommend such a reduction, if necessary, in the embarkations of next year in order to meet any crisis that may arise in the import of food or other supplies at the time.
7. *American co-operation.* That these arrangements be subject to adequate assurances from America as to co-operation with the Allies through the Allied Maritime Transport Council.
8. *Public statement of position.* That in view of the severe sacrifices that must in any event be entailed if the American military programme is continued, a full statement of the position should be issued in the name of the Council and through the representative governments to the public of the four countries,[2] this statement emphasising the fact that it is the supreme importance of increasing the Allied forces in France which is the reason for the sacrifices asked for, and that these sacrifices are likely to be required only during the winter and spring, the supply position being thereafter in all probability greatly improved.

Unqualified application of these 1918 recommendations to 1942 would be as unwise as complete disregard of the lessons they may contain. The shipping situation is distinctly less favourable to-day than it was in 1918 when the British pool showed net losses but U.S.A. over-compensating net gains, while in the past nine months there was an over-all net loss. Shipping requirements for the flow of supplies to distant and exposed battle fronts (Pacific, Egypt, Russia) and the combination of air and submarine attack, may also account for increased strain as compared with 1918. Nor could anybody outside the Governments suggest basing plans for the harvest year 1942/43 on ' the prospect of substantial improvements in the whole Allied tonnage position ' as the Transport Executive confidently did in 1918, though one might hope that by next summer the shipping position would at least not be worse than it is now.

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[1] Ibid. pp. 208 *ff.* and 310 *ff.*
[2] Great Britain, France, Italy, U.S.A.

Against this debit element in the present situation must be set : (*a*) that food supplies and (what is more important) food distribution, (rationing was unduly delayed and mismanaged in the last war), are distinctly better in 1942 than they were in 1917/18 when the Food Council, bearing 1917 in mind, claimed 5 million tons more imports than the Shipping Executive proposed to allocate, and stated emphatically that ' the morale of the people will be most seriously endangered by [the Executive's] basis of imports ;' (*b*) that this year's prospective increase in home crop yields (including cattle reserves) is very much greater than that of 1918 over 1917.

By tightening the belt for the next 12 months (a policy repeatedly forecast by Ministers and feasible in conjunction with recommendation number 8 above), and by improving[1] simultaneously the equalisation of the distribution[2] of civilian supplies, here and in U.S.A., this year's bumper harvest may allow again the adoption of a policy of ' munitions in winter and food afterwards,' and also a policy of stock reduction. If, as in 1918, food imports for 1942/43 are curtailed by 5 or 6 million tons, and munitions get, in addition, a seasonal priority, the anxious desire of political and military leaders, to secure the maximum increase in armed strength on the battlefields at the earliest possible date, would be brought nearer to achievement. The appreciable effect of the seasonal adjustment in shipping allocation for food imports between July 1917 and July 1918 is demonstrated in the tabular appendix to Salter's book.[3]

A similar and perhaps greater freeing of shipping space for munitions might not be impossible now and may be effected by properly adjusted inter-allied administrative machinery. For all we know, such a programme may be in hand or in execution, although the food policy of the last six months does not support this assumption.[4] It may therefore not be useless to emphasise the main points in the situation by two quotations, the first from Salter (ibid. p. 6), the second by his present colleague, Mr. Lewis Douglas (quoted from *Fortune*, June 1942).

> "The decision of the German Government to embark on the intensive (submarine) campaign of 1917 with its consequent effect on America has often been spoken of as a reckless and foolish gamble, but not by anyone who was concerned in countering it". Without " the protection of merchant ships by naval convoy and the complete national and allied control of supplies . . . and with the continuance of shipping losses at the rate of April 1917, it is possible that the Allies would have been forced to abandon a large part of their military effort in the winter of that year ; it is certain that shipping could not have borne the additional strains of transporting and supplying the new American army in the following summer."
>
> " The shipping budget is one budget that we must balance. We can neither borrow nor leave it unbalanced."

German submarine building, as Mr. Churchill stated, is still on the increase. The shipping budget will therefore remain on the agenda.

F. BURCHARDT.

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[1] See BULLETIN, Vol. 4, Nos. 6, 7, 10, 11.

[2] It is not so much the reduction in total supplies as the degree of fairness in sharing them out which affects morale.

[3] Ibid. p. 354.

[4] BULLETIN Vol. 4, No. 13, p. 251, and Supplement No. 3, Sept. 1942, show in depeendently that food consumption has increased during the last six months.

SERVICE PAY AND WAGES

Improvements have been announced in the basic rates of pay for men in the armed forces, to take effect from October 1st. For "other ranks," the present weekly payments, and the new rates, are as follows:

	Present rates	*New rates*
Single man	17s. 6d.	21s.
Married man, no children	39s.	42s. 6d.
,, ,, 1 child	47s. 6d.	52s.
,, ,, 2 children	54s.	60s. 6d.
Allowance for each additional child	5s.	7s. 6d.

The basic rate of pay for women will also be increased by 2s. 4d. a week. The increases for "other ranks" will cost £37.5 million a year and the increases for junior officers will cost a further £5.5 mn., bringing the total extra charge, for the three services to £43 million a year. The increased rates of pay will be taken into account in determining the war service grants. These have been paid in 427,000 cases, the total amounting to £13 million a year. It is stated that to bring the pay of the British forces into relation with the American forces would cost about £400 million.

In the White Paper (Cmd. 6385) an attempt was made to estimate the value of payments received in kind, such as food, accommodation and clothing. For an unmarried man the minimum sum which he would otherwise have to spend on items provided free is taken as 35s. per week. For a married man the saving is less and is estimated at not less than 23s. per week. These figures, it may be added, have been subject to criticism and the White Paper has been "widely interpreted and resented as ingenious special pleading" (*Times* 11/9/42). Comparison with earnings in civilian life must also allow for the fact that income tax is not payable on allowances which the soldier receives in cash or in kind or on those received by his family or dependents.

If we accept the estimates given in the White Paper for allowances received in kind, the minimum earnings of an unmarried private soldier on the new scales of pay will amount to 56s. per week, which is equivalent to a gross income (before tax), in the case of a civilian, of about 65s.; similarly, the minimum earnings of a private soldier, who is married without any children, will amount to 65s. 6d. per week and the corresponding gross income of a civilian would be about 68s. The minimum rate of pay may, of course, be increased in various ways and the White Paper mentions that "proficiency pay may add 3s. 6d. per week, as it very generally does, after six months' service," equivalent to about 5s. liable to tax. The private soldier would then be getting the equivalent of 70s. per week, if unmarried, and 73s., if married without children.

The average earnings of men in the industries included in the Ministry of Labour's enquiries, in January 1942, were 102s. per week, the average for particular industries ranging from 80s. (public utility) to 109s. (metal, engineering and shipbuilding). In the industries not covered by these enquiries (coal, railways, agriculture) earnings were rather less, so that the general average would be somewhat reduced.

AMERICAN STEEL

Reconsideration of military prospects has resulted in a return to the previously abandoned principles of a long-term production strategy. The decision to use all available steel for current output of armaments has now been reversed, and, on the advice of the U.S. Production Board, steel capacity is to be expanded, by about 1 million tons less than planned before, (9.7 instead of 10.8 million net tons ingot capacity) bringing the annual rate of output to 98 million tons by the middle of 1943 instead of the present 88 million tons.

Apart from insufficient plant capacity, the shortage of scrap, deficiencies in the priority system, black markets and, last but not least, the clash of interests in the steel industry, are the factors detrimental to a rapid increase in steel supplies. There is, of course, plenty of scrap available, but it is either not collected at all or is held up by the dealers, who anticipate, and in fact are attempting to force, higher prices for delivery to steel plants.

There are also considerable surplus stocks of steel lying in the storehouses of manufacturing firms, but the quantities are unknown to the Government and only lately an investigation into these inventories has been considered, since the sources of the black markets in steel can largely be traced to these stocks. The black markets, themselves a product of the gap between demand and supply, have torn this gap wider. The leakage in the priority system caused by existing stocks is aggravated by maldistribution in new deliveries. A case quoted before the Senate Committee investigating defence preparation indicated that in June 35,000 tons of steel were supplied for an order of 22nd priority rating, although orders classified as militarily essential could not be fulfilled. According to the chief of the Steel and Iron Branch of the War Production Board, out of 5,690,000 tons of steel shipped in June, 16%, equalling 824,000 tons, had been allocated for purposes other than Army, Navy, Maritime Commission, Lease-Lend, railroads and warehouse accounts. The various attempts at a well-functioning priority system have not kept pace with the growing steel shortage. In June total deliveries could cover only half of total requirements, amounting to some 11,100,000 tons. If every second ton ordered cannot be supplied (even allowing that ordering is probably excessive) it is difficult to balance the contradictory demands of quick delivery on the one hand and of careful examination of priority rights on the other.

The conflicts arising from the influence of the big steel companies should also be mentioned. Representatives of the Pacific American Steel and Iron Corporation, for instance, complained that the erection of an Iron and Steel industry in a favourably situated new area has been prevented on the initiative of the Eastern steel companies who were influencing decisions through dollar-a-year men. Widespread discontent of medium size firms seems to be based on the proportion of new productive capacity put into the hands of the big companies. Records show that these companies have been assigned 96% of pig supply, 95% of new coke ovens, 86% of open hearth facilities and 68% of electric furnace smelting.

ERRATUM.

Bulletin Vol. 4, No. 12. p. 236.—In Table I, section 3, last column 'Export of bones' for '50' read '5'